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Guatemala

Coffee

Annual

2006

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Report Highlights:

The major event to affect Guatemala's coffee industry was Hurricane Stan, which hit Guatemala in October 2005. Despite widespread damage to the western and southern portions of the country, the coffee industry escaped relatively unscathed. Production in marketing year 2006 is estimated to drop from 3.82 million bags produced in 2005 to 3.59 million bags, a 5.5% decrease due to Hurricane Stan. Exports increased by 4% from CY 2004 to CY 2005. Exports for 2006 are estimated to drop by 4.6% to 3.3 million bags; most of the reduction is due to losses in the low quality grades. Guatemala's marketing strategy of focusing on its high quality coffees is paying dividends.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Guatemala [GT1]
[GT]

Table of Contents

Executive Summary 3

Production 4

Consumption..... 5

Trade..... 5

Policy 6

Marketing 6

Executive Summary

Production in crop year 2006 is estimated to drop from 3.82 million bags produced in 2005 to 3.59 million bags. The Guatemalan Coffee Association (ANACAFE) had estimated total production to stay steady at 3.80 million bags but Hurricane Stan was responsible for a 6% decrease. Exports from CY 2004 to CY 2005 showed a 4% increase. Exports for 2006 are estimated to drop 4%, though most of this decrease is in lower quality beans, which bore the brunt of Stan. Italy has become a major export market in 2006, following Germany. The United States is still Guatemala's biggest customer, accounting for 45% of all exports. Japan follows the U.S. with 16% of total exports. With a new Free Trade Agreement signed with Taiwan, Guatemalan coffee will have immediate duty-free access to this Asian market. Guatemala has positioned itself as a marketing leader with worldwide recognition. Alliances have been made to increase production and exports of high quality, certified coffee. The "Cup of Excellence", the Guatemalan Coffee Auction Program, received a meritorious recognition from the World Summit of the Information Society (WSIS). Domestic consumption is forecast to experience a slight increase in the next few years through marketing strategies that involve caffeinated sodas, Internet cafes, and specialty coffee shops and restaurants.

Production

PSD Table

Country	Guatemala						
Commodity	Coffee, Green						
			(1000 HA)(MILLION TREES)		(1000 60 KG BAGS)		
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate	
	[Old]	[New]	[Old]	[New]	[Old]	[New]	
Market Year Begin	10/2004		10/2005		10/2006		MM/YYYY
Area Planted	272	272	272	272	0	272	(1000 HA)
Area Harvested	225	225	225	225	0	225	(1000 HA)
Bearing Trees	750	864	750	864	0	864	(MILLION TREES)
Non-Bearing Trees	91	96	91	96	0	96	(MILLION TREES)
TOTAL Tree Population	841	960	841	960	0	960	(MILLION TREES)
Beginning Stocks	20	29	16	45		14	(1000 60 KG BAGS)
Arabica Production	3744	3802	3648	3574	0	3802	(1000 60 KG BAGS)
Robusta Production	27	15	27	15	0	15	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	3771	3817	3675	3589	0	3817	(1000 60 KG BAGS)
Bean Imports	50	20	50	20	0	20	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	50	20	50	20	0	20	(1000 60 KG BAGS)
TOTAL SUPPLY	3841	3866	3741	3654	0	3851	(1000 60 KG BAGS)
Bean Exports	3400	3451	3300	3300	0	3400	(1000 60 KG BAGS)
Roast & Ground Exports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Exports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Exports	3400	3451	3300	3300	0	3400	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	405	350	406	320	0	375	(1000 60 KG BAGS)
Soluble Dom. Consum.	20	20	20	20	0	21	(1000 60 KG BAGS)
TOTAL Dom. Consumption	425	370	426	340	0	396	(1000 60 KG BAGS)
Ending Stocks	16	45	15	14	0	55	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	3841	3866	3741	3695	0	3851	(1000 60 KG BAGS)

ANACAFE estimates that the 2005-2006 production will drop to 3.59 million bags. ANACAFE had estimated MY 2006 production would total 3.8 million bags, but Hurricane Stan reduced that estimate by 6 percent. Hurricane Stan, which hit Guatemala in October 2005, fortunately hit areas that are not major production areas. Direct losses due to the hurricane were estimated to be 2.5% of production (110,000 bags worth \$ 11 million). Indirect losses, including unavailability of manual labor, damaged irrigation systems, and damage to rural roads, all of which further reduced harvesting, represented an additional 1.0% of production. Quality losses due to problems at reception and processing plants caused an additional 2.5% loss. Fortunately, these losses affected the lowest quality product, which corresponds to the first harvests. If Stan had hit Guatemala later, in December, losses could have reached 35-40% of the crop.

Guatemala has experienced a very interesting change in coffee production over the last 25 years. In 1980, 20% of production was hard and strictly hard beans, the higher quality beans that bring better prices in the market. The lower qualities, prime and extra prime, accounted for 80% of coffee production. As a result of a strategic decision made by the Guatemalan coffee producers, by 2005 80% of the coffee production was hard and strictly hard, while prime and extra prime represented 20%. Although total coffee production has dropped in this time, the financial security of the industry has strengthened. Currently, about 80% of production is in small and medium sized farms, located in high altitude zones that produce hard and strictly hard beans.

Consumption

Consumption reached 340,000 bags in 2005. Surprisingly, coffee consumption in Guatemala is less than 2 kilograms per person. ANACAFE is trying to increase domestic consumption by educating consumers on quality coffee and proper preparation. ANACAFE cooperated with Pepsi to introduce a new beverage called "Pepsi Cappuccino." The increase of Internet cafes, "McCafes" in McDonald's, and specialty coffee shops and restaurants, is further stimulating consumption.

Trade

Export Trade Matrix			
Country	Guatemala		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	60 Kg bags
Exports for:	2004		2005
U.S.	1,520,000 U.S.		1,574,000
Others			
Japan	430,000 Japan		572,673
Germany	300,000 Canada		282,000
Canada	265,000 Germany		267,740
Netherlands	100,000 Nordic Countries		124,000
Finland	100,000		
Total for Others *	500,000		573,000
Others not Listed	95,000		58,000
Grand Total	3,310,000		3,451,413

* Total others is Other European Countries

Guatemala exported 3.4 million bags during CY 2005, 4% above CY 2004 exports. Despite the recovery in coffee prices and the high quality recognition for Guatemalan coffee, exports have dropped by 4.6% since the harvest started in October 2005. ANACAFE reported coffee exports dropped by 29% year on year in January 2006, which is understandable given the disruptions caused by Stan. However, as rural areas recover, we expect exports to catch up.

The United States is still Guatemala's biggest customer, accounting for 45% of all exports. Japan, Germany, Canada, the Netherlands and Finland are the next top five export destinations. Japan has become a much more important customer for Guatemalan coffee, sharing 16% of Guatemala's exports. In 2003, exports to Japan were only 250,000 bags and by 2005 exports to Japan reached 572,673 bags. Suntory, Japan's beverage manufacturer,

in cooperation with ANACAFE developed the canned coffee product "Rainbow Mountain" and is successfully selling it throughout Japan. Guatemala signed a Free Trade Agreement with Taiwan in 2005, and when it goes into effect, coffee will have immediate duty-free access to this Asian market. Guatemala continues to seek new markets, and recently exported 2,800 bags to Israel.

Policy

Three years ago the Government of Guatemala authorized a \$100 million trust fund to assist coffee farmers during the price crisis. The trust fund was managed by ANACAFE and has provided financial assistance to coffee farmers at a low interest rate. In addition, USAID and IDB are supporting the coffee farmers with loan programs to help them recover from the low prices of a few years ago. However, the Government of Guatemala also increased taxes and reformed some of the tax laws, which according to ANACAFE will raise costs and depress the industry. ANACAFE argues that such Governmental decisions will increase unemployment, land invasions, and migration, and decrease the economic activity in coffee producing regions. At this moment, small farmers have sent a law proposal to the Legislature to exonerate exports from the 12% VAT.

Marketing

ANACAFE has a very active marketing program focusing on the high quality and the variety of its coffee. Consumer recognition of Guatemalan coffee is increasing, both through fresh hot coffee sales as in Starbucks, as well as in ready-to-drink packages (either cold or hot) in Japan. Guatemalan coffee producers are very optimistic about 2006 sales. ANACAFE's marketing strategy includes differentiating its various designated varieties by special colorful and easily recognizable packaging. Varieties include Rainforest Coban, New Oriente, Antigua Coffee, Fraijanes Plateau, Volcanic San Marcos, Traditional Atitlan, and Highland Huehue. In April 2006, the new Acatenango Coffee was introduced into the local market and its quality is very similar to the Antigua Coffee.

During the last World Fair of the Specialty Coffee Association of America, Guatemala was selected as the "compass" that guides producers of gourmet coffee all around the world. This fair hosted more than 7,000 representatives from different countries. In February 2006 ANACAFE signed a strategic alliance with the Alliance for Sustainable Certified Products (formed by USAID and Rainforest Alliance) to promote capacity building among producers interested on obtaining certification. Starbucks is also investing in the country to promote social welfare in the coffee producing areas.

Presently, Rainforest has certified over 8,500 hectares of specialty coffee. Rainforest Alliance certified products are sold to eleven European Countries. Other buyers of Guatemalan coffee are UCC, Key Coffee, Boyds, Diedrichs Coffee, Mayorga Coffee Roasters, and others.

Guatemala received a Meritorious Recognition Award from the World Summit of the Information Society (WSIS) for its Internet Auction Program for Guatemalan coffee known as the "Cup of Excellence". This program started in 2004 and has expanded each year. Last year, Japanese buyer Saza Coffee paid \$ 9.55 per pound for a Guatemalan bourbon coffee.